

## **DECLARATION OF MARCEL HENRY**

I, Marcel Henry, declare as follows:

1. I am Vice President of Southern Financial Operations within MCI Telecommunications Financial Operations and Accounting Organization. I manage MCI's relationship with BellSouth, Sprint/United, and Independent Telephone Companies that operate in Kentucky, Tennessee, North Carolina, South Carolina, Georgia, Florida, Alabama, Louisiana, and Mississippi. I am responsible for the management of all Telco costs within the Southern region, including both access and interconnection. One of my duties is to identify and utilize alternative access providers for as much of MCI's interexchange traffic as is feasible.
2. Prior to joining MCI, I spent nearly 15 years with Pacific Bell, where I was Vice President-Lead Negotiator for interconnection agreements with major carriers. I held a number of other positions at Pacific Bell, including Vice President-Sprint Division and Director of Sales-National Accounts. I have a B.S. in Information Systems Management from the University of San Francisco and am a graduate of the Harvard Business School Program for Management Development (PMD). I am a member of the Harvard Business School Alumni Association.
3. The purpose of my declaration is to provide information concerning the state of exchange and exchange access competition in the Southern region. I will provide information to illustrate the absence of exchange access competition. I will also offer examples of ILEC practices that show that the incumbents do not behave like companies facing substantial competition. Finally, I will provide evidence to demonstrate some of the economic barriers CLECs face as they attempt to enter the local market.
4. Analysis of ILEC, CAP, and CLEC exchange access bills for the fourth quarter of 1997 show that ILECs continue to provide MCI with the vast majority of the exchange access services which MCI requires in the Southern region, despite MCI's consistent efforts to identify and utilize alternative access providers. The data show that alternative providers accounted for less than 0.15% of MCI's total switched access costs in the Southern region during those months. This includes all charges associated with entrance facilities, switched access transport, switching, and common line. The data further show that alternative providers accounted for less than 4% of the dedicated switched and special access transport circuits which MCI purchased in the Southern region during the fourth quarter of 1997.
5. Three factors severely constrain MCI's ability to migrate exchange access traffic to alternative providers: (1) the relatively small number of end user customers served by those providers; (2) the limited networks of those providers; and, (3) excessive ILEC termination liabilities.
6. The limited networks of the alternative providers constrain MCI's access choices in two ways: (1) they constrain the ability of those providers to gain end user customers; (2) they prevent MCI from migrating substantial amounts of its switched access transport traffic off the ILEC

networks. Thus, ILECs will continue to provide MCI with the vast majority of switched access services.

7. Even in cases where an alternative provider has facilities, it is often infeasible for MCI to move existing traffic from the ILEC to the competitive provider. For example, in some cities MCI purchases a SONET service from BellSouth (Smartering). This service offers ubiquitous, redundant transmission services. No competitive provider can match this service since none are collocated in every central office. Additionally, it is often infeasible for MCI to move existing traffic from the ILEC to the competitive provider because of high termination liabilities, non-recurring charges, and administrative requirements imposed by the ILEC. The ILECs take advantage of MCI's need to purchase services at favorable prices, by structuring their price schedules such that only customers who agree to long-term, high-volume contracts receive favorable discounts. These contracts entail significant termination liabilities, which effectively lock customers in place and prevents competition for this market segment. For example, if MCI signed a 5-year contract with BellSouth for a 12 DS3 system, but chose to terminate the contract after two years (to move to a CLEC), the termination liability would be \$35,640. (See BellSouth FCC #1, Section 7). In many cases, this, in itself, prevents carriers from moving circuits to CLECs.

8. In certain instances, ILEC actions and policies demonstrate the absence of exchange access competition. For example, BellSouth has refused to meet with MCI's carrier relations group to discuss its plans for the 1998 Annual Access Tariff Filing. Only a monopolist would refuse to meet with its second largest customer.

9. The FCC's changing rules on when carriers must pay the TIC have also negatively affected the development of exchange access competition in the Southern region. Under last May's First Report and Order on Access Charge Reform, interexchange carriers would no longer have been required to pay the TIC when using alternative transport providers. While MCI was preparing to order circuits from alternative providers, the Commission issued its Second Order on Reconsideration which greatly reduced the portion of the TIC which could be avoided. Consequently, MCI reduced its planned orders from alternative providers in the Southern region by more than half. The result is that the networks of alternative providers are less extensive and robust than they would have been, had the Commission not acted to protect ILEC revenues from competition.

10. Exchange access competition is by definition dependent on the emergence of alternative providers of exchange access. The most common type of alternative provider to date has been the CAPs, who currently provide very limited access competition to the ILECs as discussed above. Another potential competitor that is currently emerging is the Competitive Local Exchange Carrier (CLEC). The CLEC can compete for exchange access traffic through the provision of alternative facilities-based local exchange service. Unfortunately, it will take a significant amount of time and capital investment for the CLECs to be viable competitors and, thus, exert any competitive pressure on exchange access pricing.

11. Although MCI is currently providing facilities-based local service in 7 cities in the Southern region, such efforts to date have resulted in relatively limited competition in the local exchange market, in addition to the exchange access market.

12. While MCI is committed to providing local service, throughout the business and residential market where financially viable, MCI has been prevented from entering the local market on any widespread basis. There are three primary financial reasons for this result.

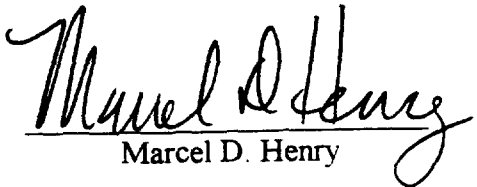
13. First, although the legal barriers to entry have been removed, economic barriers remain in the form of subsidized retail rates for residential service, recurring and non-recurring rates that are not set at forward-looking costs for unbundled elements (UNEs), and delays in establishing permanent rates at the state level. Permanent rates have only been established in 4 states in my region.

14. Second, even if rates are priced at forward-looking cost, which has not been the case for most UNEs where permanent rates have been established, and MCI operates as efficiently as possible, MCI will continue to face greater costs than the ILEC, in particular NRCs that are charged by the ILECs to migrate a customer. The ILEC does not face these charges not because it is more efficient, but because of its historical position as the monopolist it currently has all of the customers. Therefore, MCI must be even more efficient in order to successfully enter and remain in the local market.

15. Finally, despite the desires of MCI to enter the local market, it takes time to build and establish a robust local network. Even if capital is available, it takes, on average, 9 months to 1 year to build a local city network. Although multiple cities can be simultaneously under construction, lack of available financing and trained personnel prevent the overnight construction of a ubiquitous nationwide network.

16. All of these factors combined slow MCI's ability to enter the local market on a facilities basis and thereby provide the means necessary to provide a viable alternative to exchange access from the ILECs.

I declare, under penalty of perjury, that the foregoing is true and correct. Executed on April 30, 1998.

  
Marcel D. Henry

## **DECLARATION OF THERESE FAUERBACH**

I, Therese Fauerbach, declare as follows:

1. I am Vice President of Central Financial Operations within MCI Telecommunication's Financial Operations and Accounting organization. I manage MCI's relationship with Ameritech, GTE, and Independent Telephone Companies within Ameritech's region, which includes Michigan, Ohio, Illinois, Wisconsin, Indiana. I am responsible for the management of all Telco cost within the Central region, including both Access and Interconnection. One of my duties is to identify and utilize alternative access providers for as much of MCI's interexchange traffic as is feasible.
2. Previously, I was General Manager of MCI Wireless and Director of Sales for MCI. I joined MCI in 1983. Prior to my appointment to Vice President in 1996, I held a number of technical and managerial positions including Director of Marketing, Director of Sales-Global and Business, Director of Carrier Relations, Senior Manager of Carrier Relations and Customer Service as well as Supervisor in Finance. I have a BA degree from St. Norbert College and a MBA from Lake Forest School of Management.
3. The purpose of my declaration is to explain the difficulties faced by MCI in attempting to use competitive providers of exchange access services. I will describe the extent of exchange access competition in the Ameritech region. I will also provide evidence of Ameritech's continued attempts to maintain its monopoly over exchange access services. Finally, I will provide evidence to demonstrate some of the economic barriers CLECs face as they attempt to enter the local market.
4. Analysis of Ameritech, CAP, and CLEC exchange access bills for the fourth quarter of 1997 show that Ameritech continues to provide MCI with the vast majority of the exchange access services which MCI requires in the Central region, despite MCI's consistent efforts to identify and utilize alternative access providers. The data show that alternative providers accounted for less than 0.7% of MCI's total switched access costs in the Central region during those months. This includes all charges associated with entrance facilities, switched access transport, switching, and common line. The data further show that alternative providers accounted for less than 5% of the dedicated switched and special access transport circuits which MCI purchased in the Central region during the fourth quarter of 1997.
5. MCI's ability to migrate exchange access traffic to alternative providers is hampered by a number of factors: (1) the relatively small number of end user customers served by those providers; (2) the limited networks of those providers; and, (3) excessive ILEC termination liabilities.
6. The limited networks of the alternative providers constrain MCI's access choices in two ways: (1) they constrain the ability of those providers to gain end user customers; (2) they prevent MCI from migrating substantial amounts of its switched access transport traffic off of Ameritech's

network. Thus, Ameritech will continue to provide MCI with the vast majority of exchange access services.

7. Even in cases where an alternative provider has facilities, it is often infeasible for MCI to move existing traffic from Ameritech to the competitive provider because of high termination liabilities, non-recurring charges, and administrative requirements imposed by the Ameritech. Ameritech takes advantage of MCI's need to purchase services at favorable prices, by structuring their price schedules such that only customers who agree to long-term, high-volume contracts receive favorable discounts. These contracts entail significant termination liabilities, which effectively lock customers in place and prevents competition for this market segment. For example, if MCI signed a 5-year contract with Ameritech for a 12 DS3 system, but chose to terminate the contract after two years (to move to a CLEC), the termination liability would be \$105,312 (See Ameritech FCC #2, Section 7). In many cases, this, in itself, prevents carriers from moving circuits to CLECs.

8. In many instances, Ameritech's actions and policies demonstrate the absence of exchange access competition. For example, FCC rules permit IXCs that purchase transport from alternative providers to avoid a portion of the TIC. Ameritech attempted to circumvent this rule by asserting that in all instances where it provided multiplexing, the IXC would not be eligible for the TIC discount. If the FCC had not intervened, ratepayers would have been overcharged by millions of dollars, and could have done nothing about it. This is the definition of monopoly power--the ability to raise prices without losing business.

9. The FCC's changing rules on when carriers must pay the TIC have also negatively affected the development of exchange access competition in the Central region. Under last May's First Report and Order on Access Charge Reform, interexchange carriers would no longer have been required to pay the TIC when using alternative transport providers. While MCI was preparing to order circuits from alternative providers, the Commission issued its Second Order on Reconsideration which greatly reduced the portion of the TIC which could be avoided. Consequently, MCI reduced its planned orders from alternative providers in the Central region by more than half. The result is that the networks of alternative providers are less extensive and robust than they would have been, had the Commission not acted to protect ILEC revenues from competition.

10. Exchange access competition is by definition dependent on the emergence of alternative providers of exchange access. The most common type of alternative provider to date has been the CAPs, who currently provide very limited access competition to the ILECs as discussed above. Another potential competitor that is currently emerging is the Competitive Local Exchange Carrier (CLEC). The CLEC can compete for exchange access traffic through the provision of alternative facilities-based local exchange service. Unfortunately, it will take a significant amount of time and capital investment for the CLECs to be viable competitors and, thus, exert any competitive pressure on exchange access pricing.

11. Although MCI is currently providing facilities-based local service in 4 cities in the Central region, such efforts to date have resulted in relatively limited competition in the local exchange

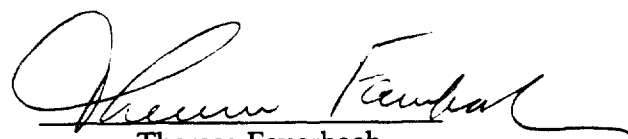
market, in addition to the exchange access market. While MCI is committed to providing local service, throughout the business and residential market where financially viable, MCI has been prevented from entering the local market on any widespread basis. There are three primary financial reasons for this result.

12. First, although the legal barriers to entry have been removed, economic barriers remain in the form of subsidized retail rates for residential service, recurring and non-recurring rates that are not set at forward-looking costs for unbundled elements (UNEs), and delays in establishing permanent rates at the state level. Permanent rates have only been established in 2 states in my region.

13. Second, even if rates are priced at forward-looking cost, which has not been the case for most UNEs where permanent rates have been established, and MCI operates as efficiently as possible, MCI will continue to face greater costs than the ILEC, in particular NRCs that are charged by the ILECs to migrate a customer. The ILEC does not face these charges not because it is more efficient, but because of its historical position as the monopolist it currently has all of the customers. Therefore, MCI must be even more efficient in order to successfully enter and remain in the local market.

14. Finally, despite the desires of MCI to enter the local market, it takes time to build and establish a robust local network. Even if capital is available, it takes, on average, 9 months to 1 year to build a local city network. Although multiple cities can be simultaneously under construction, lack of available financing and trained personnel prevent the overnight construction of a ubiquitous nationwide network. All of these factors combined slow MCI's ability to enter the local market on a facilities basis and thereby provide the means necessary to provide a viable alternative to exchange access from the ILECs.

I declare, under penalty of perjury, that the foregoing is true and correct. Executed on April 30, 1998.

  
Therese Fauerbach

## DECLARATION OF MICHAEL BEACH

I, Michael Beach, declare as follows:

1. I am Vice President of Western Region Financial Operations within MCI Telecommunication's Financial Operations and Accounting organization. I manage MCI's relationship with the SBC companies and U S West, which includes California, Nevada, Oregon, Washington, Idaho, Montana, Wyoming, Utah, Colorado, Arizona, New Mexico, North Dakota, South Dakota, Nebraska, Minnesota, Hawaii, Alaska, Iowa, Texas, Oklahoma, Kansas, Missouri, and Arkansas. I am responsible for the management of all Telco cost within the region, including both Access and Interconnection. One of my the duties of my organization is to identify and utilize alternative access providers for as much of MCI's interexchange traffic as is feasible.
2. I have been employed by MCI since September, 1974 and have held a number of management positions in Operations, Regulatory, and Carrier Management organizations. I hold a BS degree in Business Administration from the University of Phoenix.
3. The purpose of my declaration is to provide information concerning the state of exchange and exchange access competition in the Western region. I will provide information to illustrate the absence of exchange access competition. I will also offer examples of ILEC practices that show that the incumbents do not behave like companies facing substantial competition. Finally, I will provide evidence to demonstrate some of the economic barriers CLECs face as they attempt to enter the local market.
4. Analysis of ILEC, CAP, and CLEC exchange access bills for the fourth quarter of 1997 show that ILECs continue to provide MCI with the vast majority of the exchange access services which MCI requires in the Western region, despite MCI's consistent efforts to identify and utilize alternative access providers. The data show that alternative providers accounted for less than 0.25% of MCI's total switched access costs in the Western region during those months. This includes all charges associated with entrance facilities, switched access transport, switching, and common line. The data further show that alternative providers accounted for less than 8% of the dedicated switched and special access transport circuits which MCI purchased in the Western region during the fourth quarter of 1997.
5. Three factors severely constrain MCI's ability to migrate exchange access traffic to alternative providers: (1) the relatively small number of end user customers served by those providers; (2) the limited networks of those providers; and, (3) excessive ILEC termination liabilities.
6. The limited networks of the alternative providers constrain MCI's access choices in two ways: (1) they constrain the ability of those providers to gain end user customers; (2) they prevent MCI from migrating substantial amounts of its switched access transport traffic off the ILEC networks. Thus, ILECs will continue to provide MCI with the vast majority of exchange access services.

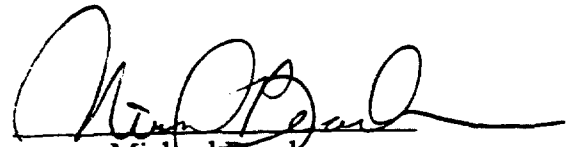
7. Even in cases where an alternative provider has facilities, it is often infeasible for MCI to move existing traffic from the ILEC to the competitive provider because of high termination liabilities, non-recurring charges, and administrative requirements imposed by the ILEC. The ILECs take advantage of MCI's need to purchase services at favorable prices, by structuring their price schedules such that only customers who agree to long-term, high-volume contracts receive favorable discounts. These contracts entail significant termination liabilities, which effectively lock customers in place and prevents competition for this market segment. For example, if MCI signed a 5-year contract with US West for 12 DS3s, but chose to terminate the contract after two years (to move to a CLEC), the termination liability would be \$263,692. (See US West FCC #1, Section 7). In many cases, this, in itself, prevents carriers from moving circuits to CLECs.

8. The FCC's changing rules on when carriers must pay the TIC have also negatively affected the development of exchange access competition in the Western region. Under last May's First Report and Order on Access Charge Reform, interexchange carriers would no longer have been required to pay the TIC when using alternative transport providers. While MCI was preparing to order circuits from alternative providers, the Commission issued its Second Order on Reconsideration which greatly reduced the portion of TIC which could be avoided. Consequently, MCI reduced its planned orders from alternative providers in the Western region by more than half. The result is that the networks of alternative providers are less extensive and robust than they would have been, had the Commission not acted to protect ILEC revenues from competition.

9. Exchange access competition is by definition dependent on the emergence of alternative providers of exchange access. The most common type of alternative provider to date has been the CAPs, who currently provide very limited access competition to the ILECs as discussed above. Another potential competitor that is currently emerging is the Competitive Local Exchange Carrier (CLEC). The CLEC can compete for exchange access traffic through the provision of alternative facilities-based local exchange service. Unfortunately, it will take a significant amount of time and capital investment for the CLECs to be viable competitors and, thus, exert any competitive pressure on exchange access pricing. Although MCI is currently providing facilities-based local service in 11 cities in the Western region, such efforts to date have resulted in relatively limited competition in the local exchange market, in addition to the exchange access market. While MCI is committed to providing local service, throughout the business and residential market where financially viable, MCI has been prevented from entering the local market on any widespread basis. There are three primary financial reasons for this result. First, although the legal barriers to entry have been removed, economic barriers remain in the form of subsidized retail rates for residential service, recurring and non-recurring rates that are not set at forward-looking costs for unbundled elements (UNEs), and delays in establishing permanent rates at the state level. Permanent rates have only been established in 4 states in my region. Second, even if rates are priced at forward-looking cost, which has not been the case for most UNEs where permanent rates have been established, and MCI operates as efficiently, MCI will continue to face greater costs than the ILEC, in particular NRCs that are charged by the ILECs to migrate a customer. The ILEC does not face these charges not because of it is more efficient, but because of its historical position as the monopolist it currently has all of the customers. Therefore, MCI must be even more efficient in order to successfully enter and remain

in the local market. Finally, despite the desires of MCI to enter the local market, it takes time to build and establish a robust local network. Even if capital is available, it takes, on average, 9 months to 1 year to build a local city network. Although multiple cities can be simultaneously under construction, lack of available financing and trained personnel prevent the overnight construction of a ubiquitous nationwide network. All of these factors combined slow MCI's ability to enter the local market on a facilities basis and thereby provide the means necessary to provide a viable alternative to exchange access from the ILECs.

I declare, under penalty of perjury, that the foregoing is true and correct. Executed on  
April 30, 1998.



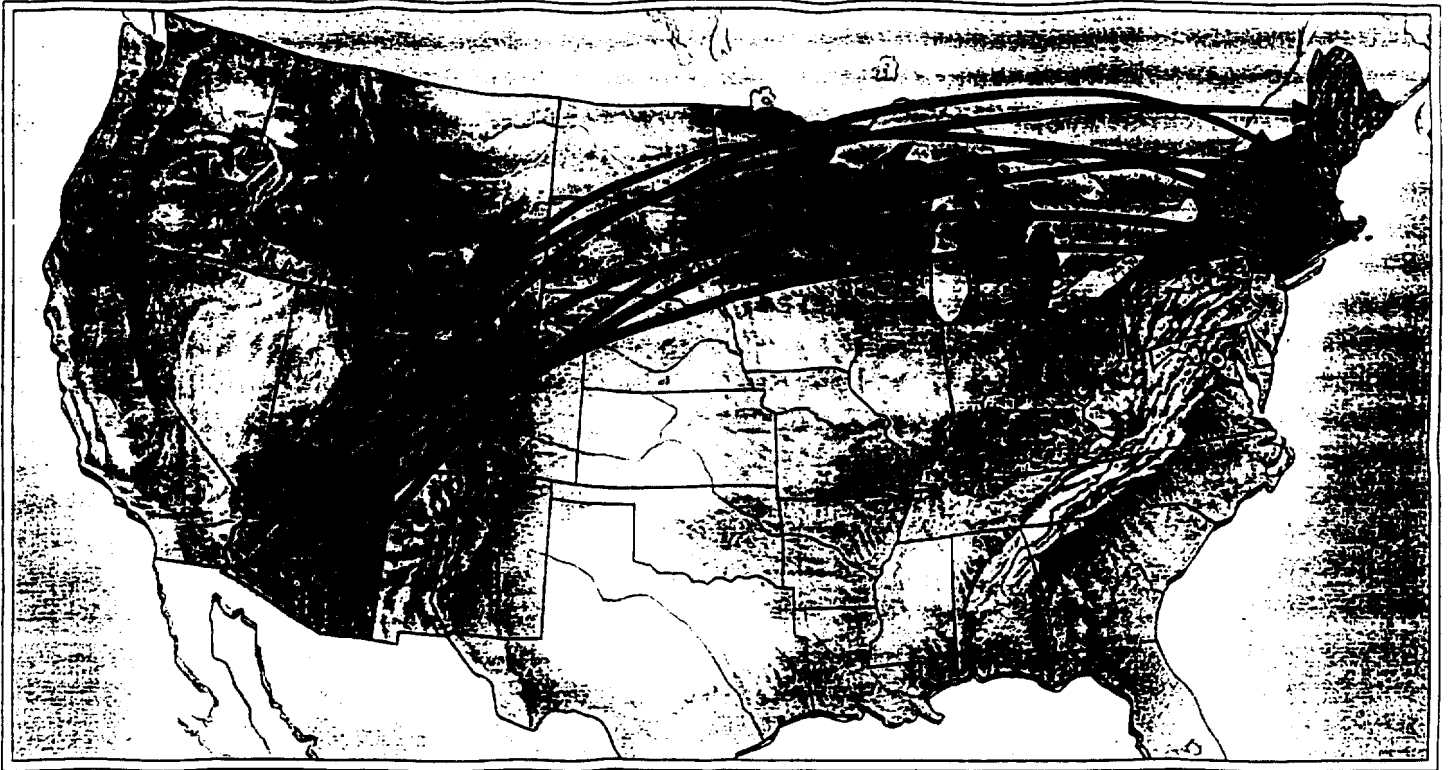
Michael Beach



**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

In the Matter of	)	
	)	
Application of BellSouth Corporation,	)	CC Docket No. 98-121
BellSouth Telecommunications, Inc.	)	
and BellSouth Long Distance, Inc.	)	
for Provision of In-Region, InterLATA	)	
Services in Louisiana	)	

**Exhibit HH:  
NYNEX Advertisement, Arizona Republic at A10 (Sept. 9, 1996)**



## Nonstop connections to the Northeast 13¢

**Call nonstop. Around the clock. For one great price.**

It's the Northeast Plan from NYNEX Long Distance<sup>SM</sup>. Now you can connect with the people you know in New York and New England for just 13¢ a minute, all the time. As for the rest of the U.S., Puerto Rico and the U.S. Virgin Islands, it's only 4¢ more a minute.

Just spend \$10 on long distance, and you'll get simple flat rates. Spend under \$10, and you'll still get the same great rates. All you'll pay extra is the difference between your

long distance calls and the \$10.

**Switch now and get three hours free.**

Make the switch to NYNEX Long Distance, and you'll get three hours of domestic long distance calls free. That's an hour each month for your first three months. So stop

what you're doing. Make the switch. Make the call.

**NYNEX**  
Long Distance

**1-800-979-5123**

Printed in the Arizona Republic (p. A10) and Phoenix Gazette  
Monday, September 9, 1996



**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

In the Matter of	)	
	)	
Application of BellSouth Corporation,	)	CC Docket No. 98-121
BellSouth Telecommunications, Inc.	)	
and BellSouth Long Distance, Inc.	)	
for Provision of In-Region, InterLATA	)	
Services in Louisiana	)	

**Exhibit II:**  
**Letter from Jonathan B. Sallett, MCI,**  
**to William Kennard, Chairman, FCC (Mar. 2, 1998);**  
**Letter from Mark C. Rosenblum, AT&T,**  
**to William Kennard, Chairman, FCC (Mar. 5, 1998);**  
**and Letter from J. Richard Devlin, Sprint,**  
**to William Kennard, Chairman, FCC (Mar. 4, 1998)**



**MCI Communications  
Corporation**

1801 Pennsylvania Avenue, NW  
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**Jonathan B. Sallet**  
Chief Policy Counsel

March 2, 1998

**William Kennard**  
Chairman  
Federal Communications Commission  
Washington, D.C. 20554

Dear Mr. Chairman:

On February 26, 1998, you requested in a publicly-released letter that MCI respond to unwarranted and unfounded allegations by the United States Telephone Association to the effect that MCI specifically, and long distance carriers generally, have not passed along to the benefit of their customers the modest access charge savings that have resulted from the orders issued by the Commission in May of 1997.

We have shown the Commission, in fact, that MCI's long distance rates have dropped further and faster than those access reductions and that MCI customers have received nearly half a billion dollars of additional savings since July 1, 1997. That information has been provided in a series of meetings between MCI and the Commission since November, 1997, including, on one occasion, a meeting between senior MCI executives, including myself, you and your staff. In all of those discussions, the Commission never suggested to us that our numbers or our conclusions were in error. Indeed, only a few weeks ago, you told an audience of consumer advocates that:

"[L]ong distance rates fell 5.3% between January 1996 and November 1997. Long distance prices are now at the lowest they have ever been<sup>1</sup>

By contrast, the incumbent telephone companies increased their revenues for access charges, boosting their revenues and earnings yet again in 1997, despite the Commission's Price Cap and Access Reform orders. They completely misunderstand the way that a competitive market, unlike these monopolies, anticipates change. The incumbents do not seem to be able to grasp, for example, that MCI, with the

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<sup>1</sup> FCC Chairman William Kennard to the National Association of State Utility Consumer Advocates, February 9, 1998.

introduction of its 5 Cents Sunday program and other initiatives, passed through savings well in excess of access charge savings to every MCI customer even before January access restructuring came into effect. That is because competitors see creative opportunity in price reductions where monopolies see only legal requirements.

Because we have already presented information to the Commission and because the record is so clear, we are -- three days ahead of your requested deadline -- placing on the public record detailed data demonstrating that:

- (1) A year after the release of the May orders, MCI customers will be receiving more in savings than the Commission itself predicted when the Access Reform and Price Cap orders were released;
- (2) MCI has passed along all access charge savings resulting from the May orders (\$756 million) -- and an additional \$467 million in savings to boot. Not only have rates have fallen further than access reductions, they have fallen in advance of access charge reductions;
- (3) Both consumers and business customers have benefited from the pass-through of access charge savings; and
- (4) The creation of presubscribed interexchange carrier charges (PICCs), which shift some per minute access charges to per line fees, and the universal service charges impose real costs in 1998 on MCI in excess of the access charge savings.

In other words, any suggestion that MCI is profiting from access charge restructuring or from the implementation of new charges is false.

The basic problem remains -- not the implementation of access charge restructuring -- but the unjustified level of the remaining access charges themselves.

The Commission's May orders cut about \$1.5 billion out of the approximately \$30 billion in interstate and intrastate per/minute and end-user access charges. But much more needs to be done. On the federal level alone, switched access charges continue to exceed costs by \$7 billion.

Last year, the Commission promised that competitive pressures caused by new entrants into the local exchange business would drive access prices down. But the so-called "market-based" approach to access reform has failed, the victim of court rulings and litigation by incumbent local exchange carriers. Where there is no market, there can be no "market-based" pressure to lower access charges.

In MCI's view, the current, inflated level of access charges is:

- (1) illegal, because it violates the clear command of the Telecommunications Act of 1996 that all subsidies be explicit;
- (2) economically irrational, because it maintains a system in which local monopolies charge appreciably more for termination of long-distance traffic than for local traffic, even though the work performed by the local company is exactly the same;<sup>2</sup> and
- (3) anticompetitive, because it gives the local companies an additional reason to block the opening of local markets (in order to safeguard the artificial level of access charges) and an additional means of distorting long-distance markets (through price squeezes).

For these reasons, and armed with the evidence that the competitive long distance industry has once again provided benefits above and beyond Commission-ordered access charge reductions, the Commission should immediately turn its attention to the joint petition of the International Communications Association, National Retail Federation and Consumer Federation of America to re-open the question of prescribing access rates to levels that would be found in a competitive market. Where markets fail, the Commission must act.

Finally, MCI is disappointed at the suggestion that it has not informed its customers that they have received the benefits of lower access charges. As Commission staff knows, MCI asked the incumbent local exchange carriers to enclose the following statement in the February bills sent to MCI residential customers:

As part of the implementation of the Act, the Commission ordered local phone companies to reduce the amount of money they charge to all long distance carriers for originating and terminating long distance calls. As a result, MCI has lowered its long distance rates, passing through to its customers more than twice the amount it is saving in these cost reductions. Competition. It works.

Unfortunately, not all the Bell Operating Companies, with whom we contract to do our billing, allowed the language to be used. Enclosed is information detailing the response of each Bell Operating Company to our attempt to send the above-quoted

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<sup>2</sup> For example, in New York, MCI pays \$0.051 in interstate access, but only \$0.0287 for local interconnection. In Michigan, we pay \$0.042 for interstate access, but \$0.0259 for local.

message. In addition, as readers of the Washington Post may recall, MCI published the text of this notice on February 4 and 11, 1998.

In this light, we believe firmly that information that we are providing to customers about new line charges on their bill is fair and accurate. It is true that MCI and other long distance carriers are facing a new set of costs -- a flat per customer line charge that we pay to the incumbent local exchange carriers and universal service costs that come to us in two ways: (1) directly from the universal service fund administrator; and (2) through the universal service obligations of incumbent local exchange carriers that are passed through entirely to the long distance industry. It is also true that decisions about how to charge our customers to recover these costs are ours and ours alone. We have recently reviewed our customer service materials to ensure that this distinction is correctly stated.

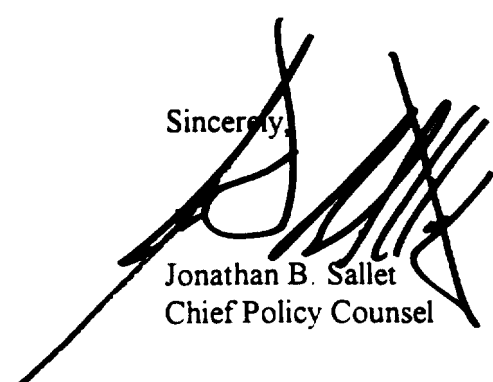
In fact, of course, efforts to provide customers with earlier notice of the details of new fees to be implemented in January, 1998 were hampered by the fact that the Commission itself did not finalize the level of universal service fees until December 16, 1997, less than a month before the new fees were to go into effect and too late to permit inclusion of information in the January billing cycle.

Moreover, we continue to be dismayed that the Commission allowed the restructuring to go into effect without any apparent recognition of the practical problems it caused. While MCI has no quarrel with the policy decision underlying the creation of PICCs -- that non-usage sensitive access charges should not be recovered in per minute fees -- the plain fact is that the long distance carriers are in a poor position to recover per line fees. Unlike the local telephone companies, who have for several years recovered subscriber line charges, the long distance industry lacks (1) the data to accurately recover such fees, and (2) the ability to charge per line fees to customers who make no long distance calls in a given month (between 25-30% of MCI customers make no long distance calls in any given month). And even if these problems did not exist, at a minimum it adds millions of dollars in unnecessary costs to MCI and other carriers to attempt to recover such amounts on behalf of the local exchange carriers. The Commission direct the local exchange carriers to recover the PICCs directly from end users -- matching the task and the beneficiary.

Chairman William Kennard  
March 2, 1998 --5

Mr. Chairman, we reject the suggestion that the Telecommunications Act of 1996 has failed. It can succeed. But it can succeed only if economic rationality is brought to telephony. That is why the Commission must move quickly to (i) place the work of collecting fees for the local companies on the local telephone companies, (ii) cut access charges to cost, and (iii) immediately grant MCI's emergency petition, filed on February 24, 1998, so that, in the interim, the basic requirements of the present system are in place.

Sincerely,



Jonathan B. Sallet  
Chief Policy Counsel

Enclosures

## Invoice Message History

### February (Residential Only)

- 1/6 Invoice message sent to LECs for "pre-approval."
- 1/8 SBC/Pac Bell view message as "competitive." Requests edits.
- 1/9 Bell Atlantic/Nynex requests substantiation to access reduction claim. Approves original message.
- 1/14 Bell South requests substantiation to access reduction claim. Rejects message.
- 1/14 US West approves original message.
- 1/14 GTE rejects message. Disagrees with interpretation of telecom reform. Requests edits. Message runs in March.
- 1/14 Ameritech rejects message as competitive and in conflict B&C contract.

## Invoice Message Text

### February

#### Original Message Residential Only (Ran as is in Direct Remit, Bell Atlantic/Nynex, and US West)

*The 1996 Telecommunications Act laid out a plan to open local phone markets to competition. As part of the implementation of the Act, the FCC ordered local phone companies to reduce the amount of money they charge to all long distance carriers for originating and terminating long distance calls. As a result, MCI has lowered its long distance rates, passing through to its customers more than twice the amount it is saving in these cost reductions. Competition. It works.*

#### Revised SBC/Pac Bell Message

*As part of the implementation of the Telecommunications Act, the FCC ordered phone companies to reduce the amount of money they charge to all long distance carriers for originating and terminating long distance calls. As a result, MCI has lowered its long distance rates, passing through to its customers more than twice the amount it is saving in these cost reductions.*

#### Revised GTE Message (Ran in March)

*As part of the implementation of the Telecommunications Act, there has been a reduction in the amount of money charged to all long distance carriers for originating and terminating long distance calls. As a result, MCI has lowered its long distance rates, passing through to its customers more than twice the amount it is saving in these cost reductions. Competition. It works.*



# Access Reform The Impact on MCI

March 2, 1998

# Methodology

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- All comparisons are 2H 97 and 1H 98 vs 1H 97 unless otherwise noted
- Industry statistics based on FCC filings and earnings reports
- MCI information based on internal information